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ABSTRACT

This document reports on a study which sought to identify the characteristics of students who default on loans obtained under the Stafford Student Loan Program. Twelve studies that were the products of original research and which addressed the characteristics of student loan defaulters were identified through literature searches and contacts with state education agencies. Each study reviewed was based on analyses performed in different states, with different sampling methods and data analysis techniques, with different groups of students and types of educational institutions and over different time periods. The studies revealed that students likely to default on their loans were those who: (1) attended vocational/trade schools; (2) had low incomes; (3) had little financial support; (4) had minority backgrounds; (5) lacked high school diplomas; (6) failed to complete their educational programs; (7) attended schools for one year or less; (8) borrowed small amounts; and (9) were unemployed when defaulting. Appendices include a list of the studies reviewed and a summary of defaulter characteristics identified in the studies. (LPT)

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United States General Accounting Office

GAO

Briefing Report to the Chairman, Subcommittee on Education, Arts, and the Humanities, Committee on Labor and Human Resources, U.S. Senate

April 1991

STUDENT LOANS

Characteristics of Defaulted Borrowers in the Stafford Student Loan Program

ED332601

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-243528

April 26, 1991

The Honorable Claiborne Pell
Chairman, Subcommittee on Education,
Arts, and the Humanities
Committee on Labor and Human Resources
United States Senate

Dear Mr. Chairman:

This report responds to your request for information on the characteristics of students who default on loans obtained under the Stafford Student Loan Program. On October 31, 1990, we discussed the results of our work with your office. This letter summarizes the information discussed at that meeting. (See appendix I.)

Background

The Stafford Student Loan Program (formerly called the Guaranteed Student Loan Program) was established in 1965 to provide students with a source of funds to help finance their education.[1] These loans are made by commercial lenders who are insured against default by guaranty agencies, who are in turn reinsured by the Department of Education.

Stafford loan volume increased during the 1980s, from $4.3 billion in fiscal year 1980 to $12.3 billion in fiscal year 1990, an increase of more than 185 percent. As loan volume rose, federal default payments to guaranty agencies also increased dramatically, from about $144 million in fiscal year 1980 to $2.48 billion in fiscal year 1990, an increase of over 1,600 percent.

Scope and Methodology

As agreed with your office, we reviewed available studies that examined various characteristics of student loan defaulters. We identified the studies through literature searches and contacts with state education agencies, student aid researchers, and Department of Education officials. We obtained 12 studies that were the products of original research and addressed the characteristics of student loan defaulters. These studies were published from 1984 to 1990 and are listed in appendix II.

[1]This program includes Stafford loans, Supplemental Loans for Students, and Parent Loans for Undergraduate Students.

There have been more studies published on defaulters and, therefore, our analysis is not meant to be a complete review of all research done on this topic. In addition, we did not validate the studies' results.

Each study we reviewed is based on analyses performed in different states, and with different groups of students and types of educational institutions. In addition, each study used different sampling methods and data analysis techniques and was based on a different time period. For example, one study sampled students who attended only vocational schools and community colleges. Consequently, the percentage of defaulters who attended vocational schools is greater in this study than in studies that sampled students who attended a wider range of schools, such as 4-year schools.

Results in Brief

We identified nine defaulter characteristics most frequently cited in the studies. Generally, the studies concluded that students likely to default on their loans were those who (1) attended vocational/trade schools, (2) had low incomes, (3) had little financial support, (4) had minority backgrounds, (5) lacked high-school diplomas, (6) failed to complete their education programs, (7) attended school for 1 year or less, (8) borrowed small amounts, and (9) were unemployed when defaulting. Appendix III shows the defaulter characteristics each study identified.

Only one of the studies sought to use defaulter characteristics to predict the type of students who would default. This study concluded that a combination of six defaulter characteristics, identified from a sample of students attending vocational schools and community colleges in California, could be used to identify about two-thirds of student loan recipients who would default.

However, two studies cautioned that defaulter characteristics cannot be used to predict default. They emphasized that an often misunderstood fact about default is that while most defaulters have certain characteristics, the majority of borrowers with these characteristics do not default on their loans. For example, one of the studies found that 65.5 percent of all defaulters had family incomes of $10,000 or less at the time they took out their loans, but only 16.9 percent of all borrowers at that family income level defaulted.

As agreed with your office, we did not obtain written comments on this report from the Department of Education or other interested parties. We are sending copies of this report to other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss the contents of this report further, please call me on (202) 275-1793. Major contributors to this briefing report are listed in appendix IV.

Sincerely yours,

Franklin Frazier

Franklin Frazier
Director, Education and
Employment Issues

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Abbreviations

GAO	General Accounting Office
FY	fiscal year

What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?

Figure I.1:

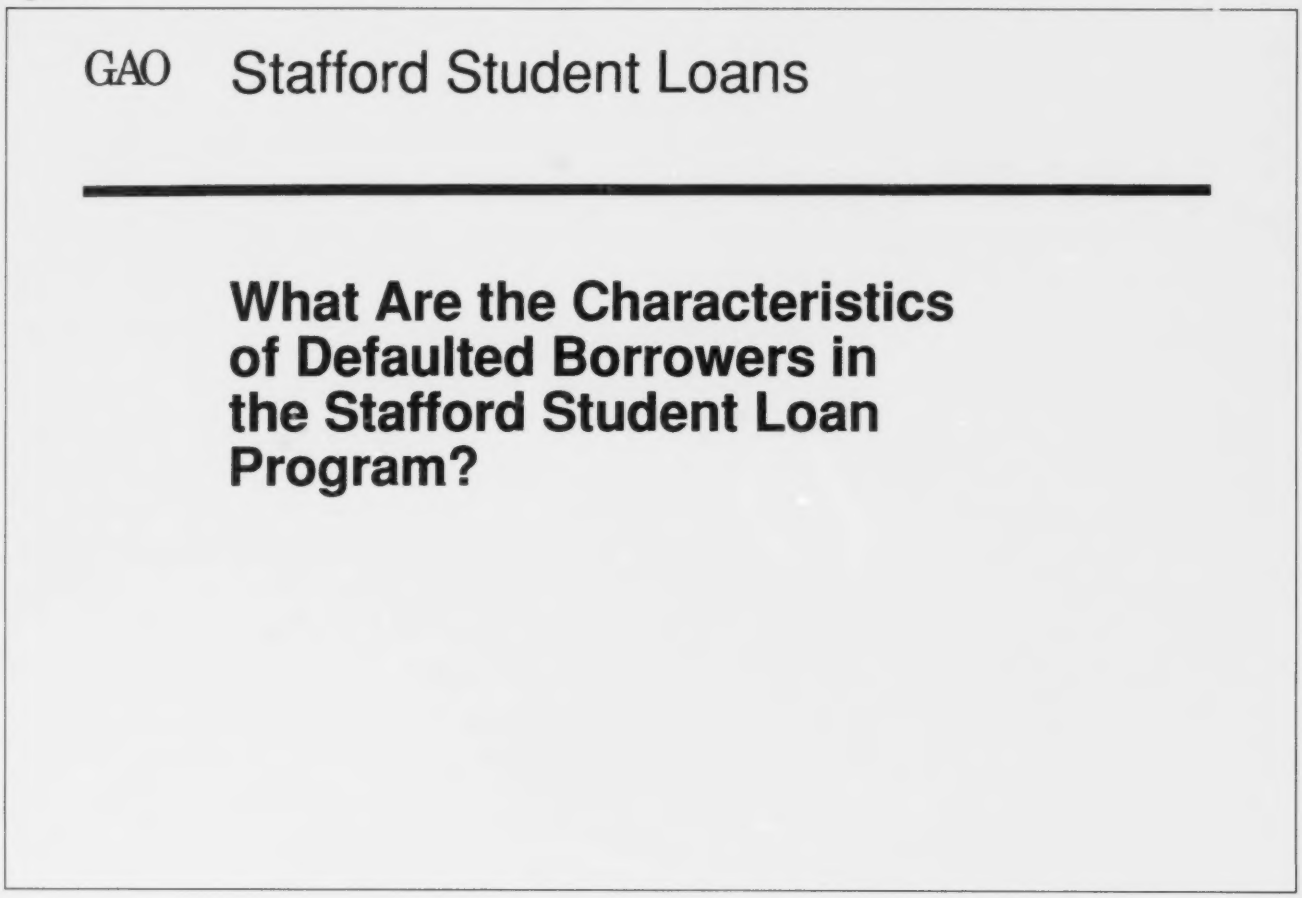

GAO
Stafford Student Loans
What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?
8

Figure I.2:

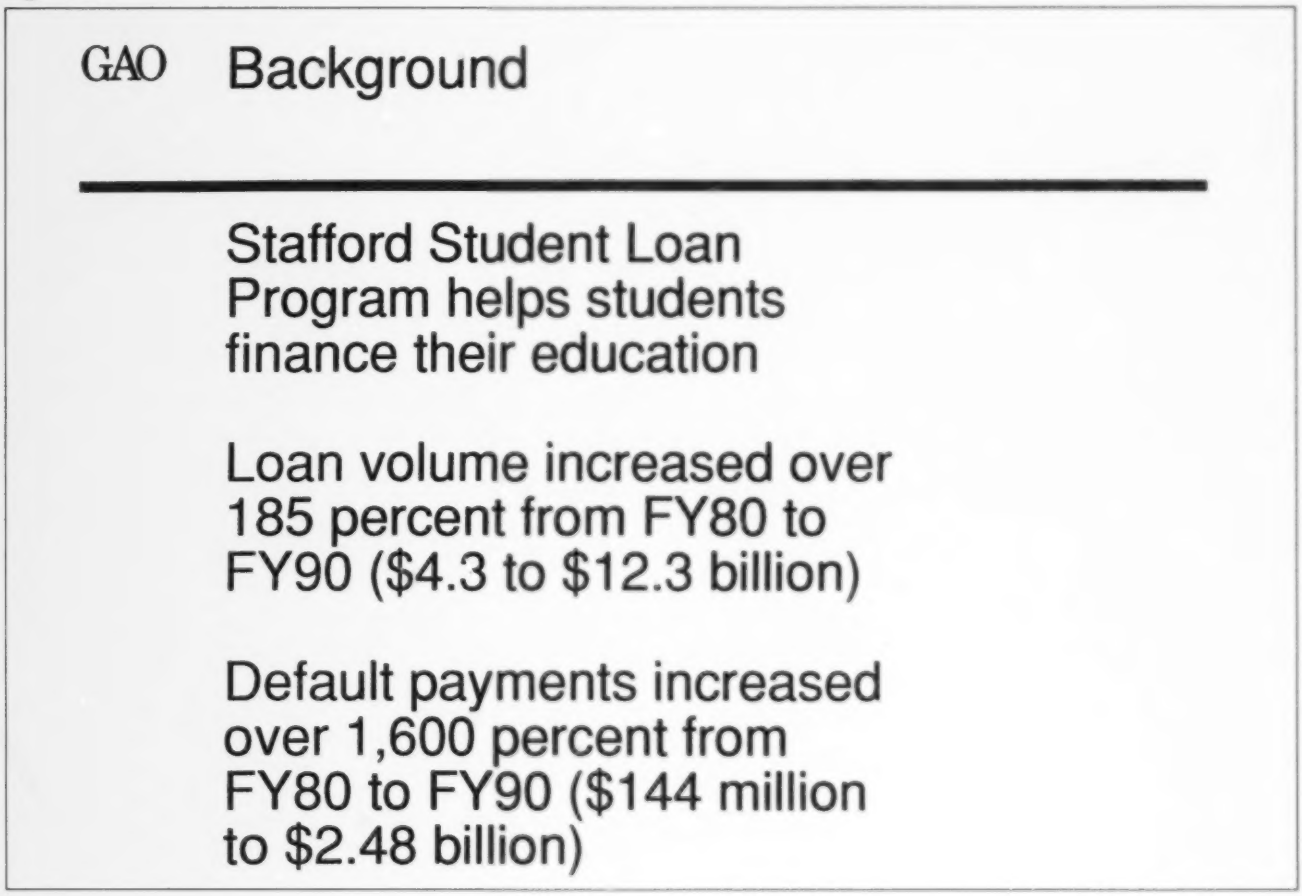

GAO
Background
Stafford Student Loan Program helps students finance their education
Loan volume increased over 185 percent from FY80 to FY90 ($4.3 to $12.3 billion)
Default payments increased over 1,600 percent from FY80 to FY90 ($144 million to $2.48 billion)

Figure I.3:

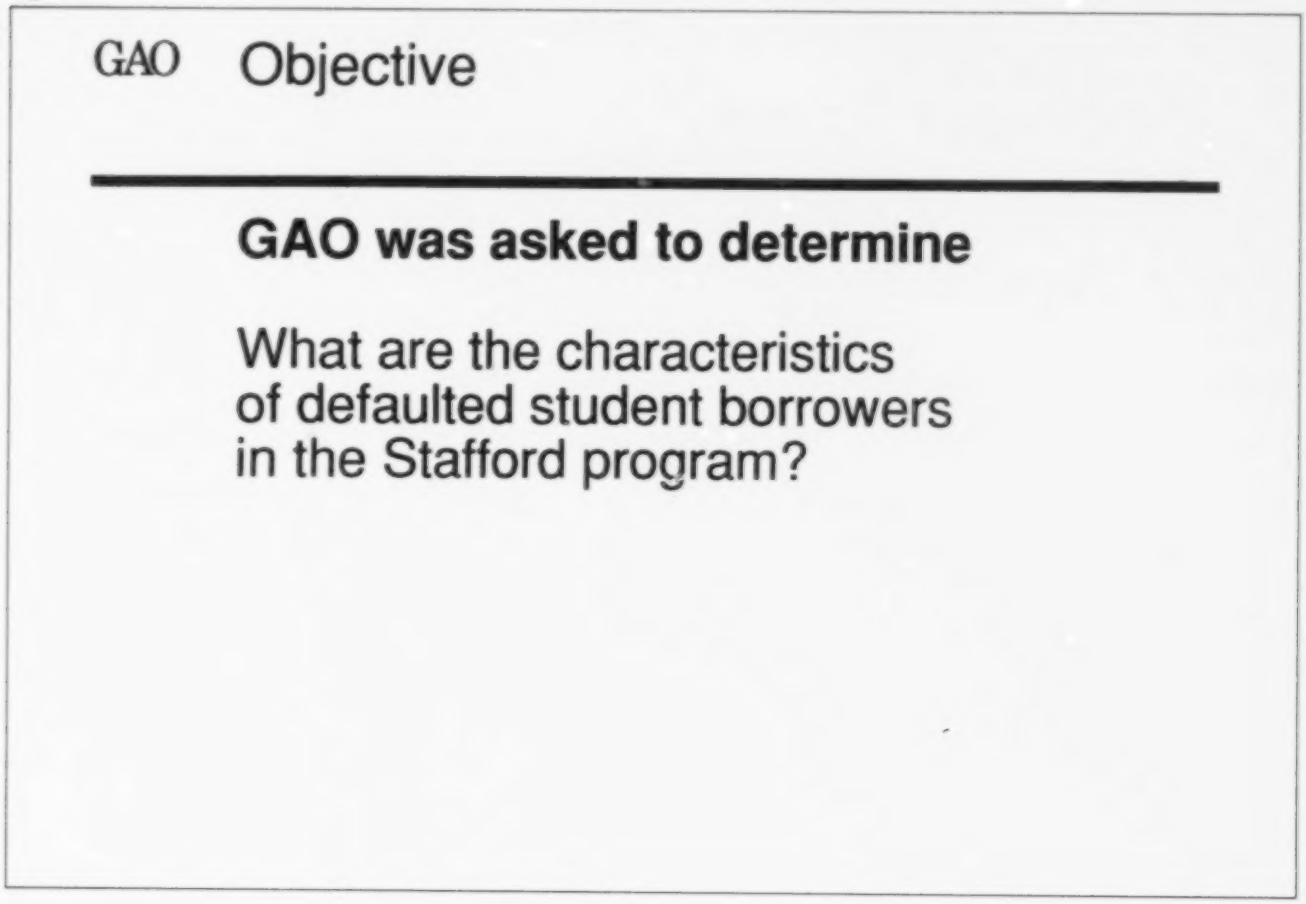

GAO
Objective
GAO was asked to determine
What are the characteristics of defaulted student borrowers in the Stafford program?

Figure I.4:

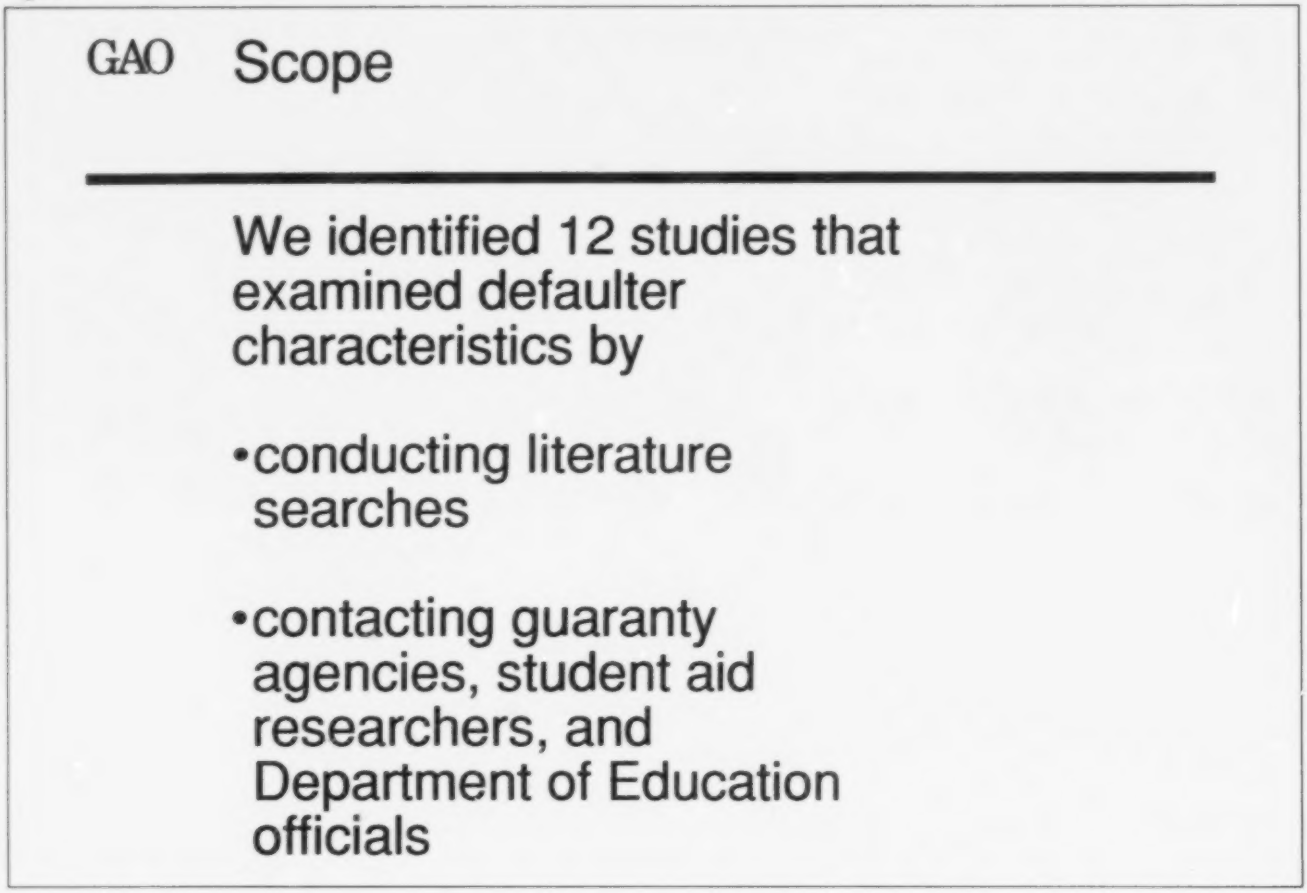

GAO
Scope
We identified 12 studies that examined defaulter characteristics by
•conducting literature searches
•contacting guaranty agencies, student aid researchers, and Department of Education officials

Figure I.5:

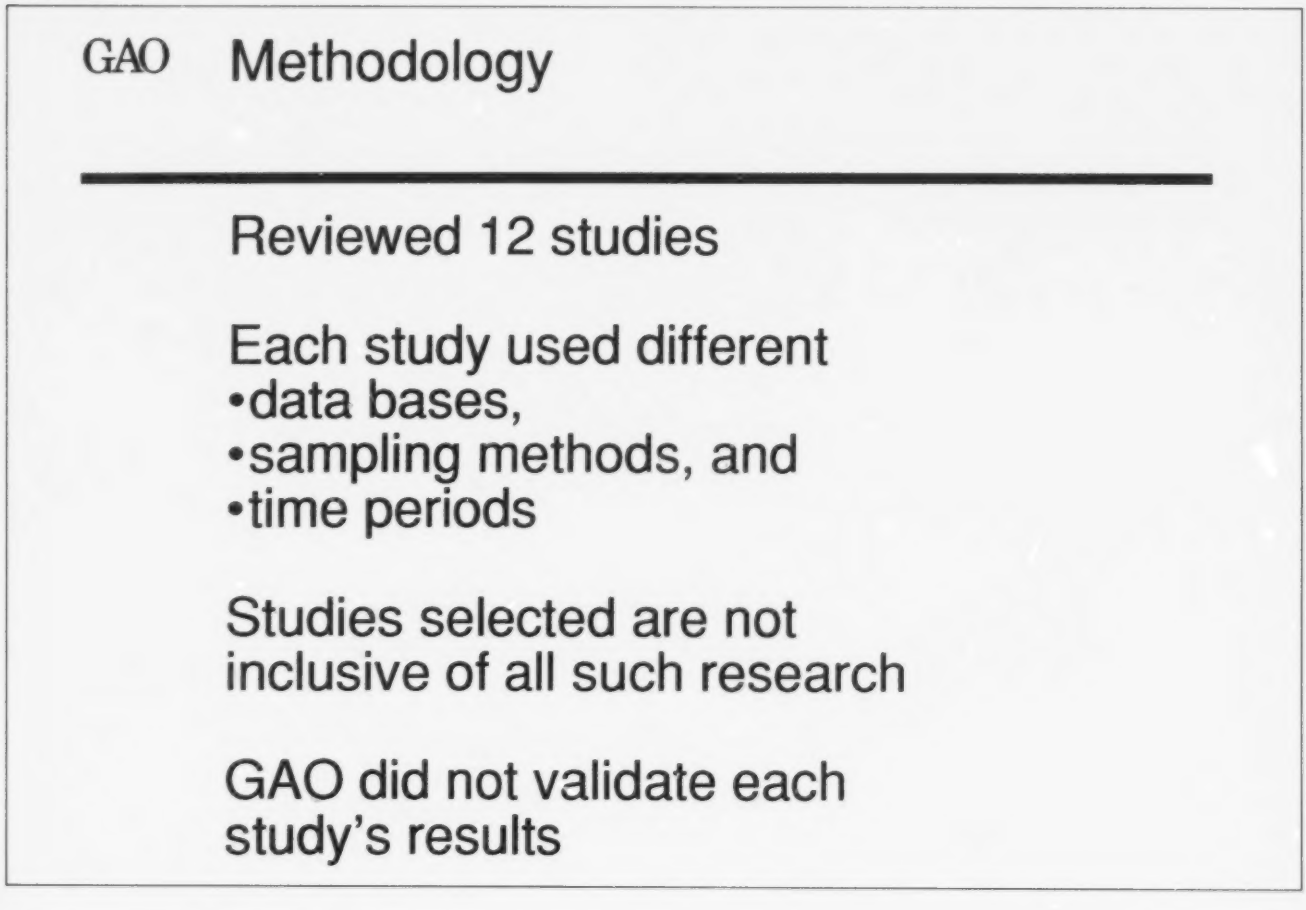

GAO
Methodology
Reviewed 12 studies
Each study used different
•data bases,
•sampling methods, and
•time periods
Studies selected are not inclusive of all such research
GAO did not validate each study's results

Figure I.6:

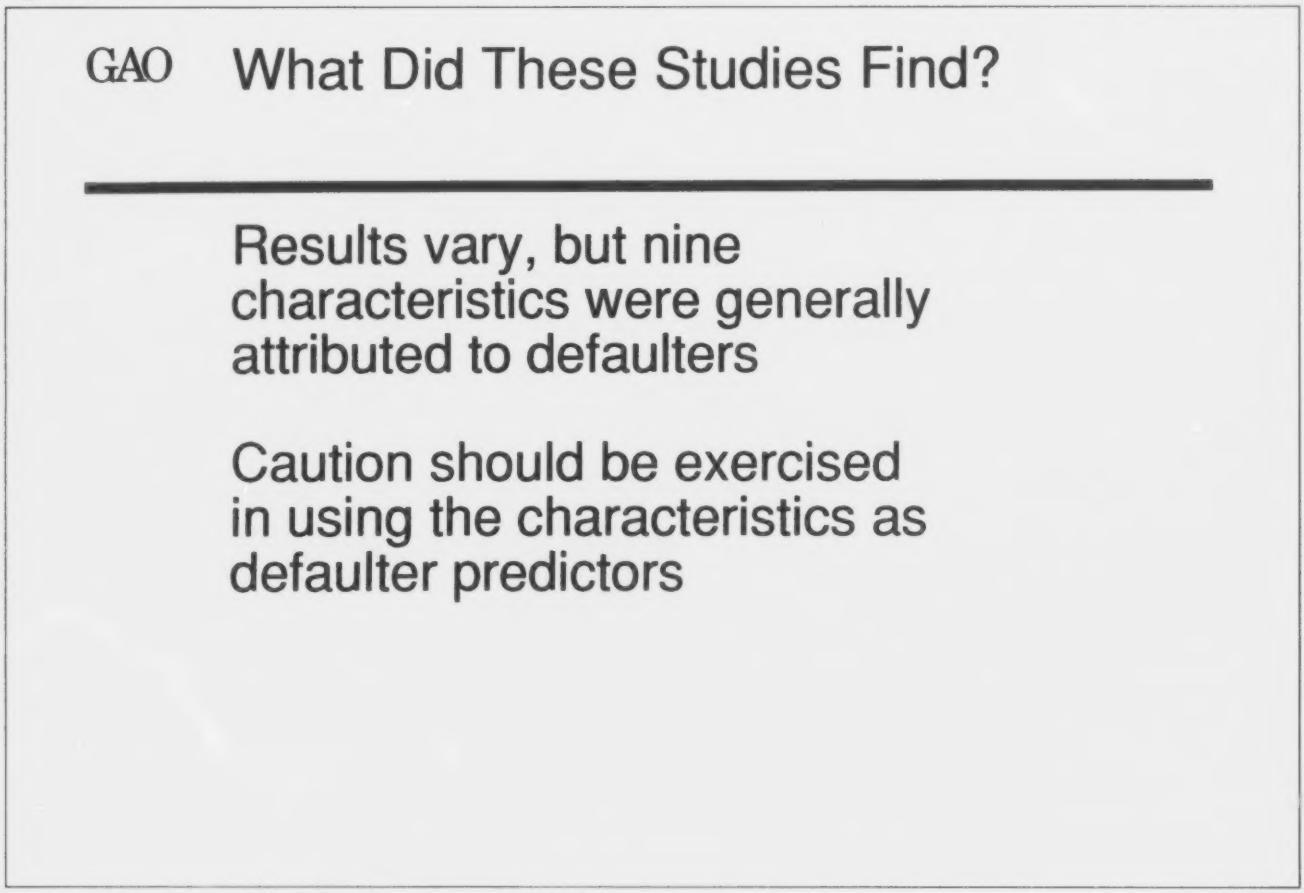

GAO
What Did These Studies Find?
Results vary, but nine characteristics were generally attributed to defaulters
Caution should be exercised in using the characteristics as defaulter predictors

Figure I.7:

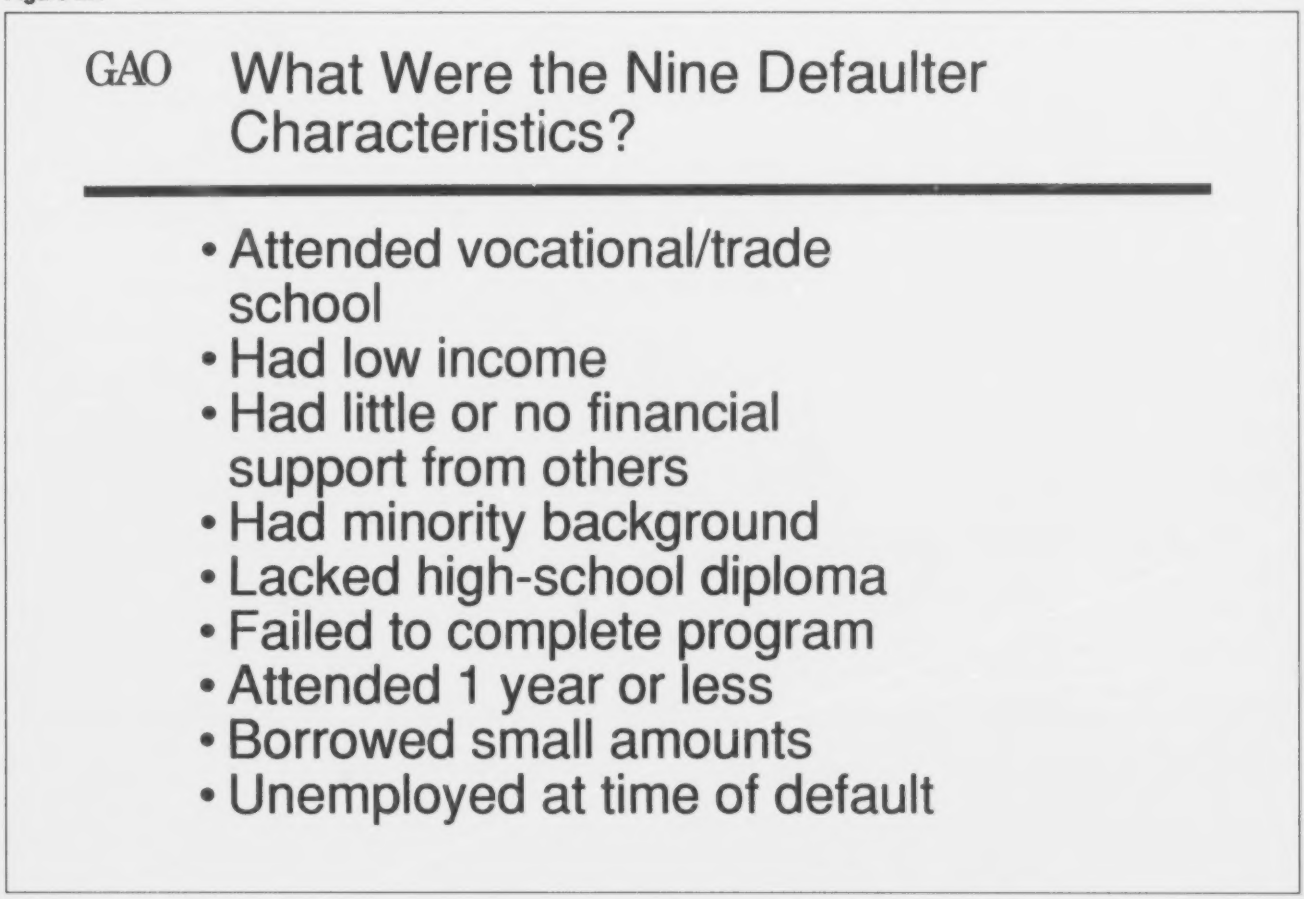

GAO
What Were the Nine Defaulter Characteristics?
• Attended vocational/trade school
• Had low income
• Had little or no financial support from others
• Had minority background
• Lacked high-school diploma
• Failed to complete program
• Attended 1 year or less
• Borrowed small amounts
• Unemployed at time of default

Figure I.8:

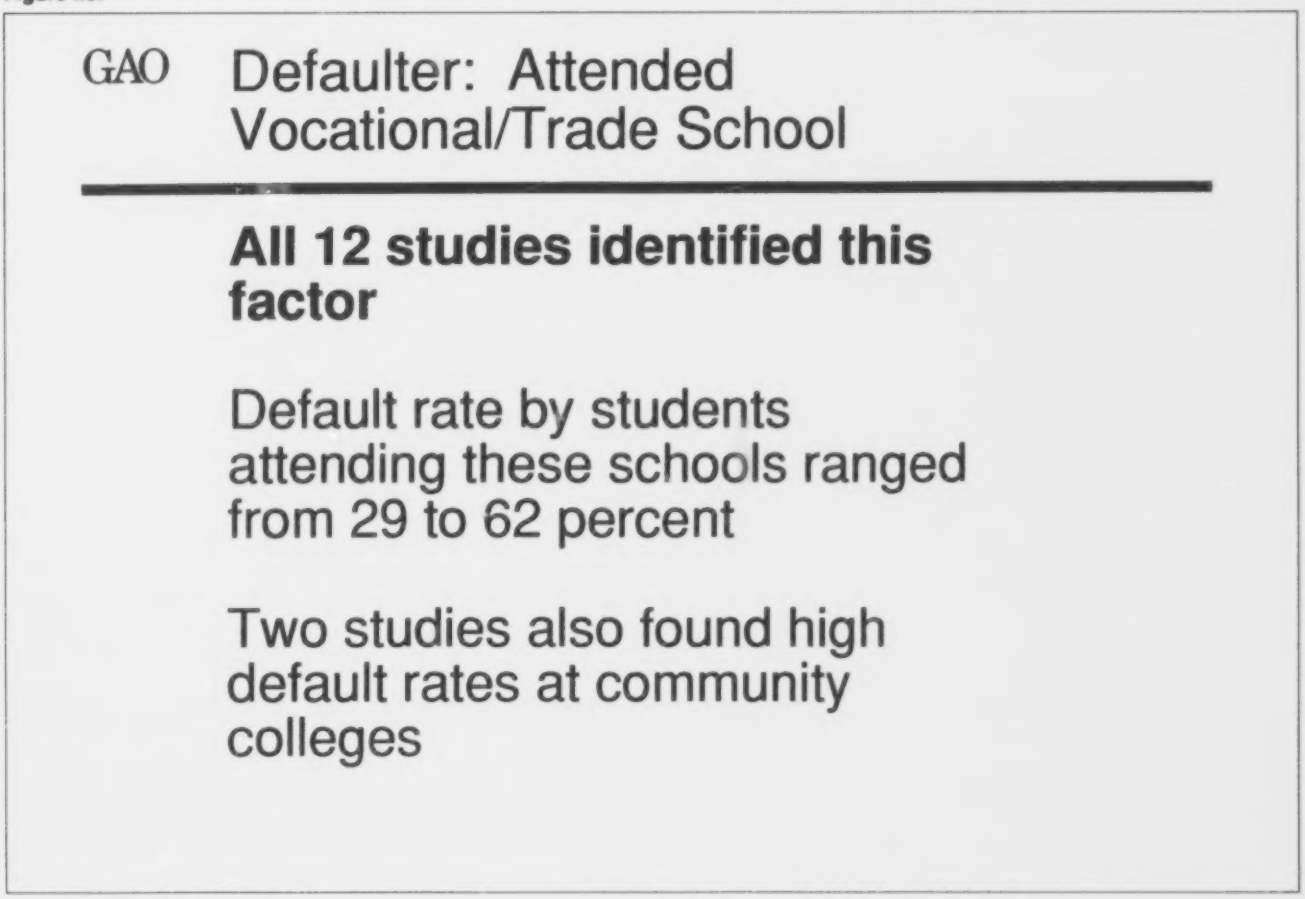

GAO
Defaulter: Attended Vocational/Trade School
All 12 studies identified this factor
Default rate by students attending these schools ranged from 29 to 62 percent
Two studies also found high default rates at community colleges

Figure I.9:

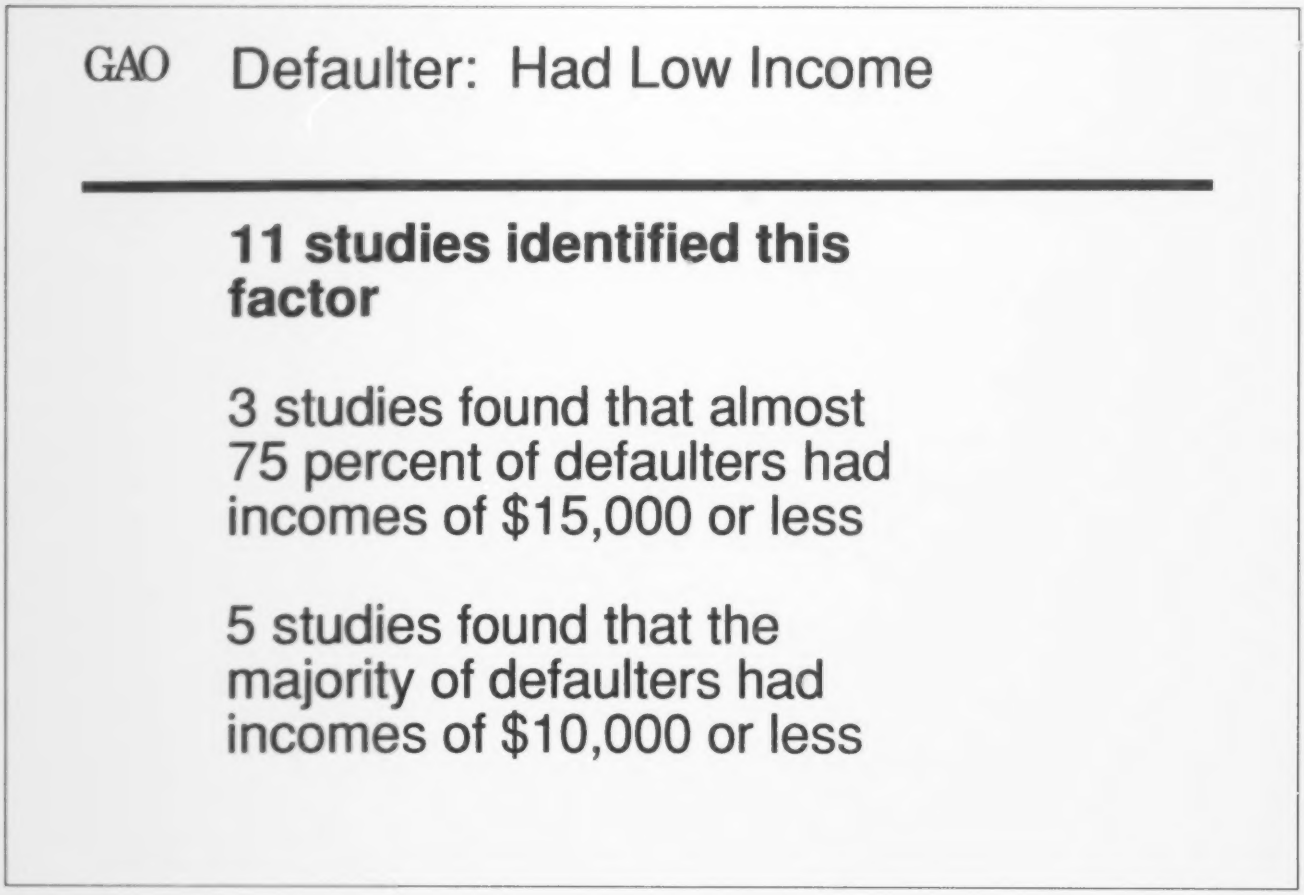

GAO
Defaulter: Had Low Income
11 studies identified this factor
3 studies found that almost 75 percent of defaulters had incomes of $15,000 or less
5 studies found that the majority of defaulters had incomes of $10,000 or less

Figure I.10:

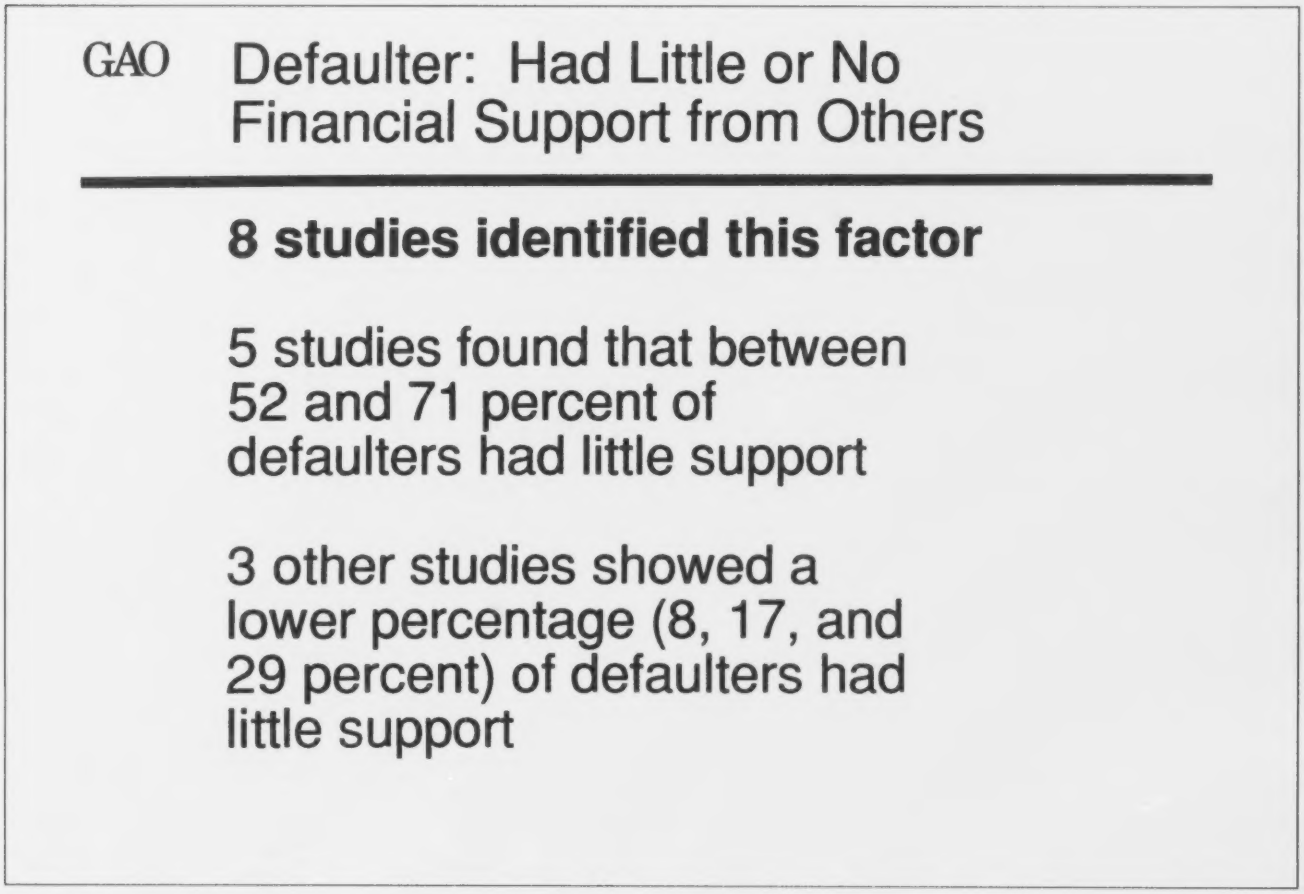

GAO
Defaulter: Had Little or No Financial Support from Others
8 studies identified this factor
5 studies found that between 52 and 71 percent of defaulters had little support
3 other studies showed a lower percentage (8, 17, and 29 percent) of defaulters had little support

Figure I.11:

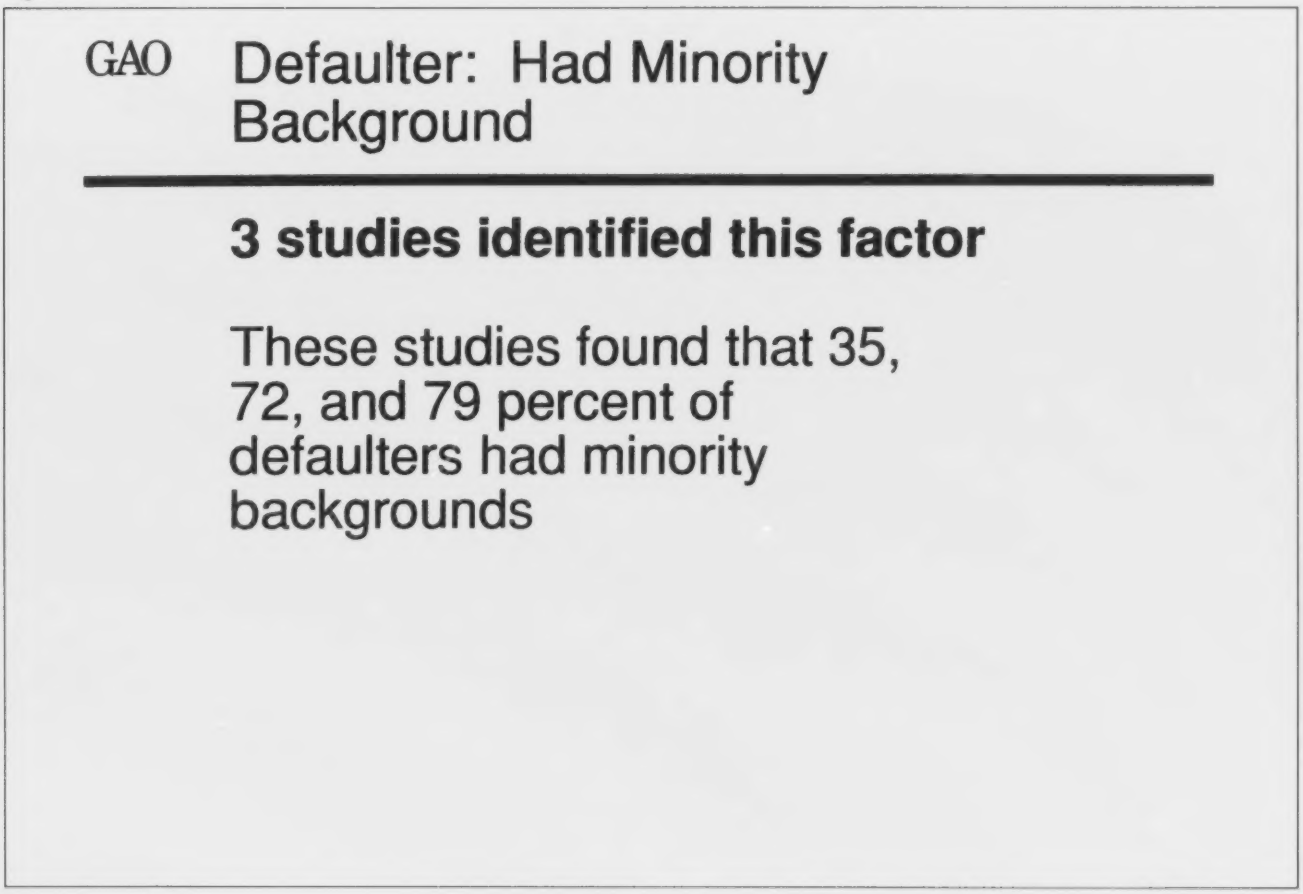

GAO
Defaulter: Had Minority Background
3 studies identified this factor
These studies found that 35, 72, and 79 percent of defaulters had minority backgrounds

Figure I.12:

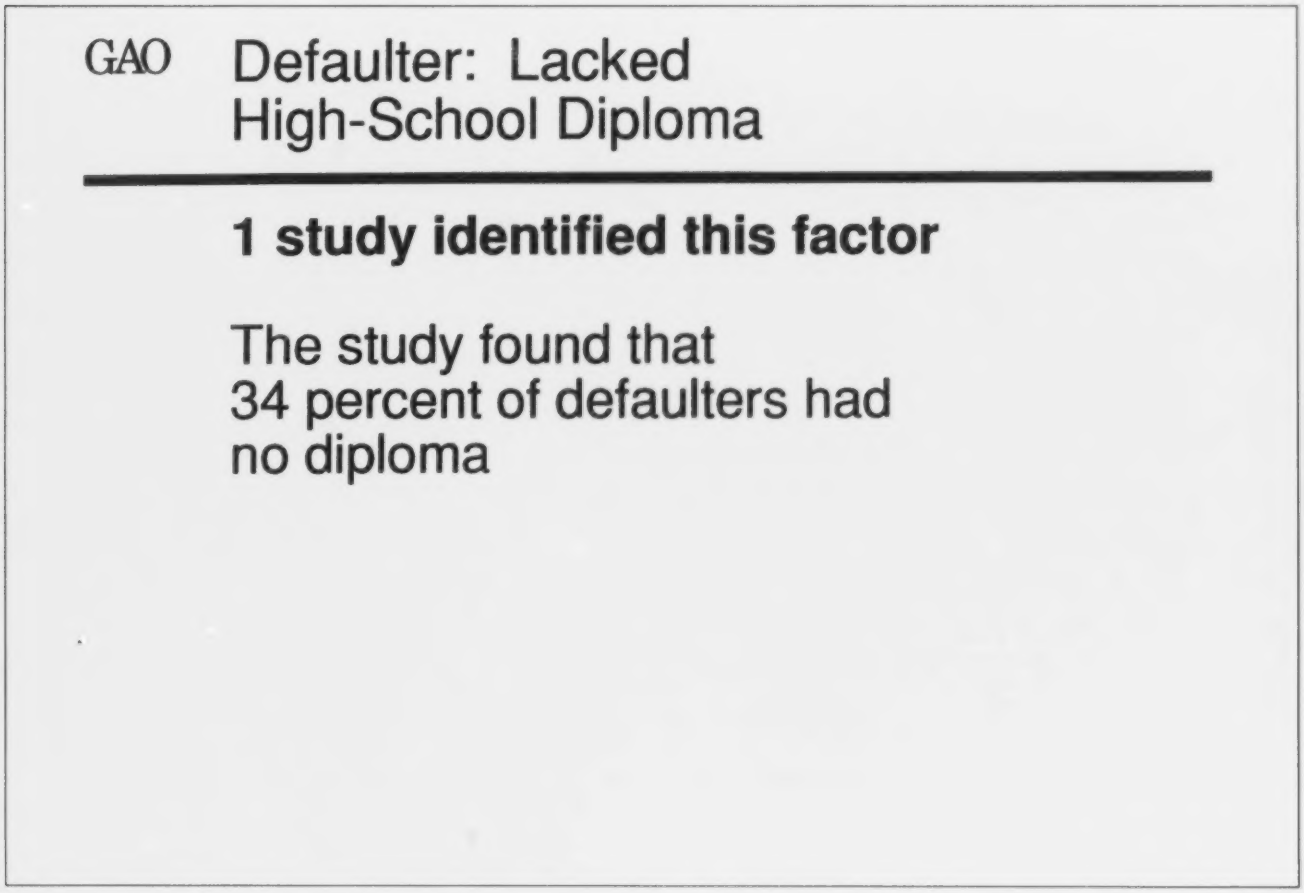

GAO
Defaulter: Lacked High-School Diploma
1 study identified this factor
The study found that 34 percent of defaulters had no diploma

Figure I.13:

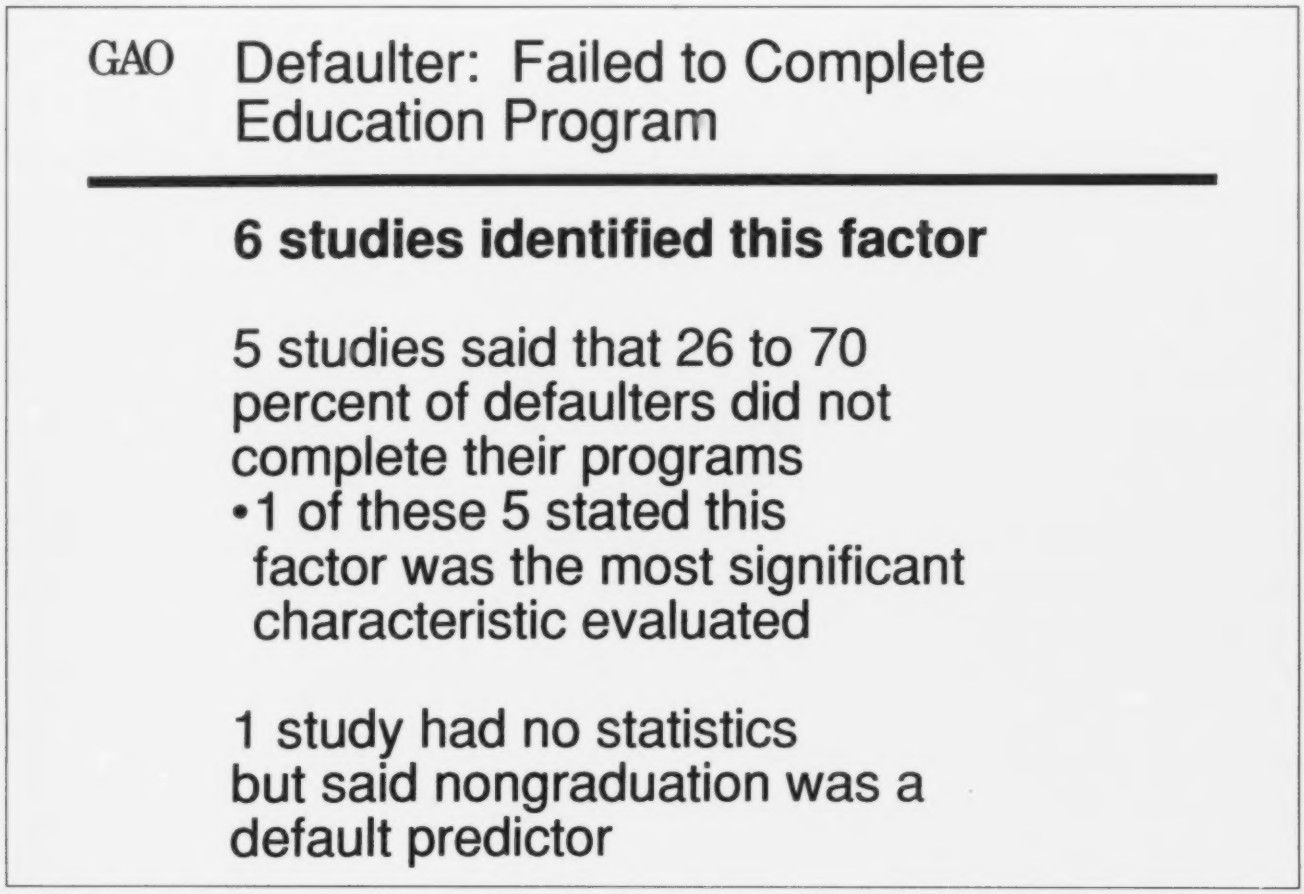

GAO
Defaulter: Failed to Complete Education Program
6 studies identified this factor
5 studies said that 26 to 70 percent of defaulters did not complete their programs
•1 of these 5 stated this factor was the most significant characteristic evaluated
1 study had no statistics but said nongraduation was a default predictor

Figure I.14:

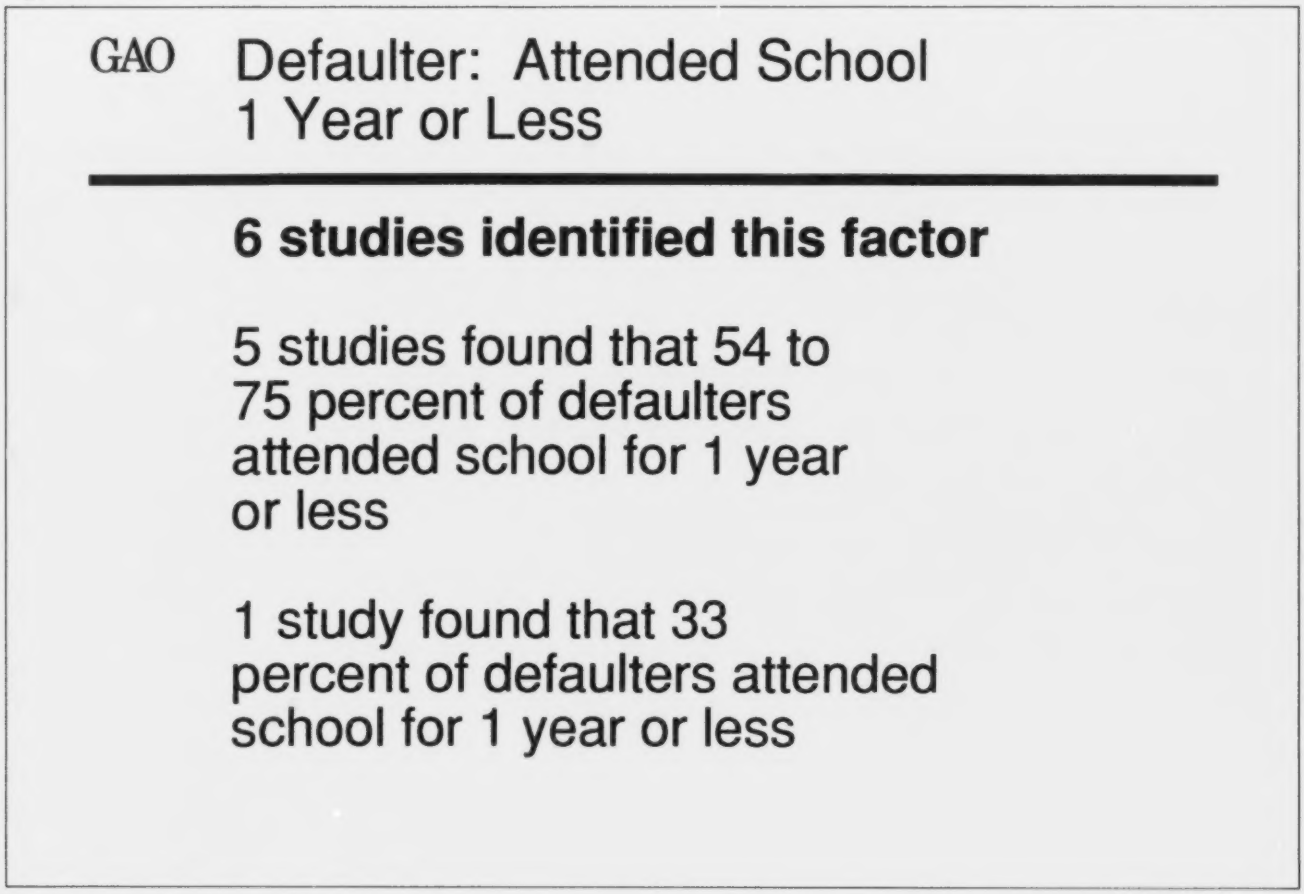

GAO
Defaulter: Attended School 1 Year or Less
6 studies identified this factor
5 studies found that 54 to 75 percent of defaulters attended school for 1 year or less
1 study found that 33 percent of defaulters attended school for 1 year or less

Figure I.15:

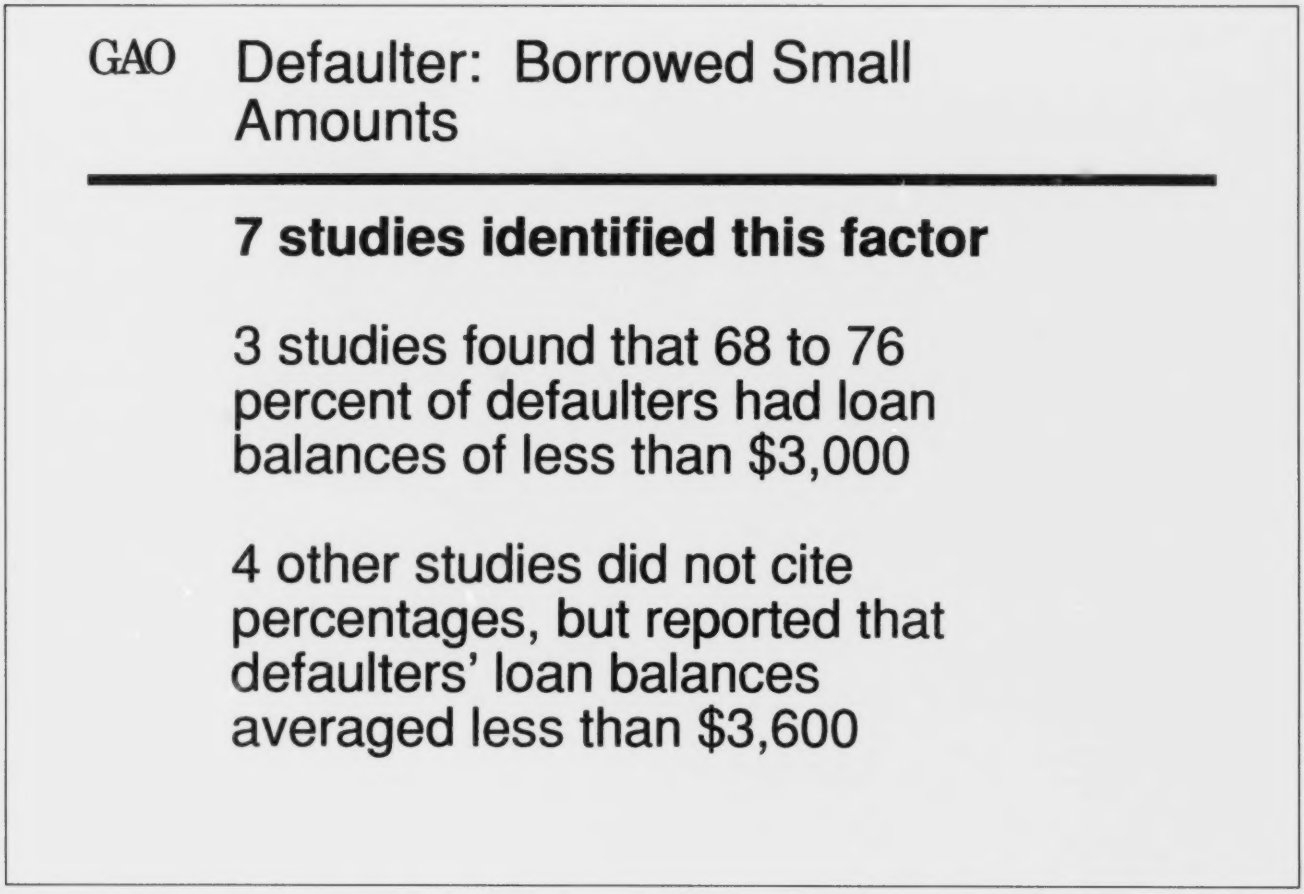

GAO
Defaulter: Borrowed Small Amounts
7 studies identified this factor
3 studies found that 68 to 76 percent of defaulters had loan balances of less than $3,000
4 other studies did not cite percentages, but reported that defaulters' loan balances averaged less than $3,600

Figure I.16:

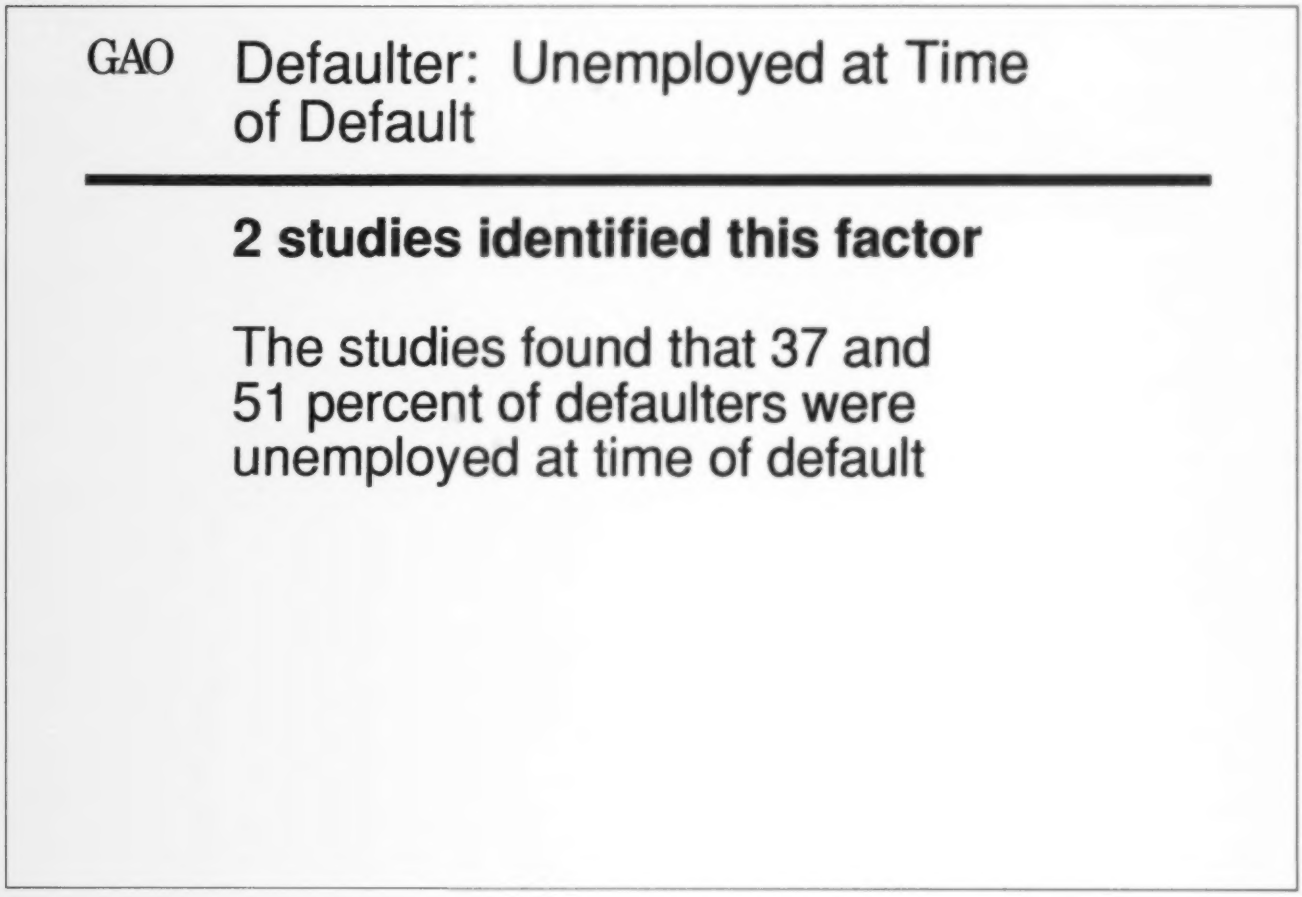
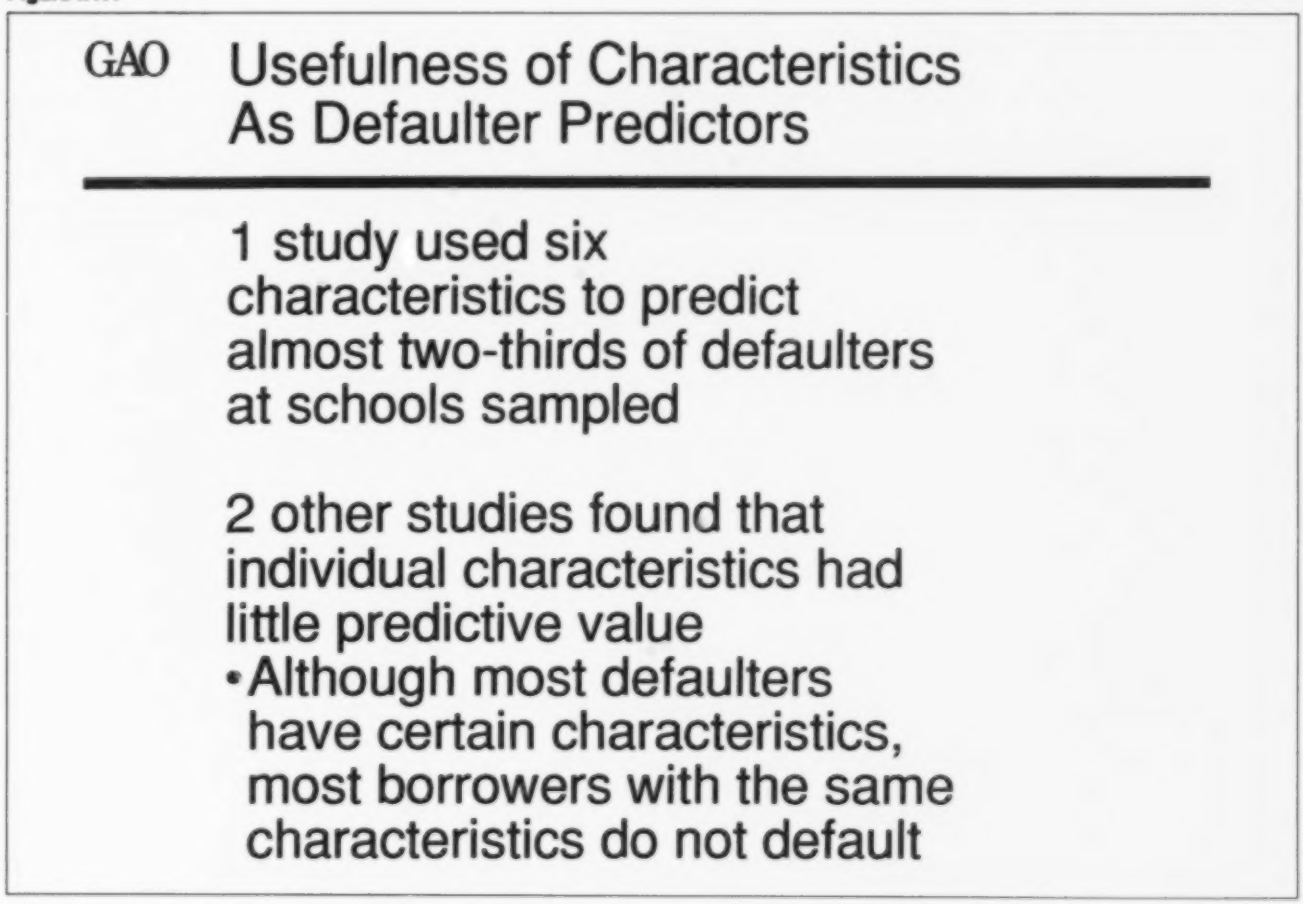

GAO
Defaulter: Unemployed at Time of Default
2 studies identified this factor
The studies found that 37 and 51 percent of defaulters were unemployed at time of default

Figure I.17:


GAO
Usefulness of Characteristics As Defaulter Predictors
1 study used six characteristics to predict almost two-thirds of defaulters at schools sampled
2 other studies found that individual characteristics had little predictive value
•Although most defaulters have certain characteristics, most borrowers with the same characteristics do not default

List of Studies Reviewed

A. California Student Aid Commission, Student Borrowing in California: A Report on Student Participation in California's Educational Loan Programs, 1988.

B. Colorado Student Loan Program, Report on the 1989 Default Study of the Colorado Student Loan Program, 1990.

C. Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, 1988).

D. GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, 1988).

E. Maryland State Board for Higher Education, Report of the Task Force on Guaranteed Student Loan Defaulters in Maryland, 1988.

F. Minnesota Higher Education Coordinating Board, Analysis of Guaranteed Student Loan Program Borrowers, 1988.

G. New Jersey Department of Higher Education, Toward the Reduction of Student Loan Defaults in New Jersey: Report of the New Jersey Default Task Force, 1988.

H. New York State Higher Education Services Corporation. Student Loan Payers and Defaulters, 1984.

I. U.S. Department of Education, 1987 National Postsecondary Student Aid Study: Characteristics of Stafford Loan Recipients, 1988, 1990.

J. U.S. Department of Education, Characteristics of Stafford Loan Program Defaulters: A National Sample, 1989.

K. Virginia Education Loan Authority, Study of Guaranteed Student Loan Defaults, 1984.

L. Wilms, Wellford W., and others, "Whose Fault Is Default? A Study of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California," Educational Evaluation and Policy Analysis, 1987.

Appendix III

Summary of Defaulter Characteristics Identified in the Studies

Defaulter characteristics	Studies reviewed[b]											
	A	B	C	D	E	F	G	H	I	J	K	L
Attended vocational/trade school	X	X	X	X	X	X	X	X	X	X	X	X
Had low income	X	X	X	X	X	•	X	X	X	X	X	X
Had little or no financial support	•	X	X	X	X	•	X	•	•	X	X	X
Had minority background	•	X	•	•	X	•	•	•	•	•	•	X
Lacked high-school diploma	•	•	•	•	•	•	•	•	•	•	•	X
Failed to complete education program	•	•	•	X	X	•	•	•	X	X	X	X
Attended school 1 year or less	•	X	X	X	•	•	X	•	•	X	X	•
Borrowed small amounts	X	•	•	X	•	•	X	X	X	•	X	X
Unemployed at time of default	•	X	•	•	•	•	•	X	•	•	•	•

[a]The studies listed as A thru L correspond to the letter assigned to the study contained in appendix II.

[b]The designation "X" means that the characteristic was included in the study while the designation "•" means the characteristic was excluded.

Major Contributors to This Report

Human Resources Division, Washington, D.C.	Joseph J. Eglin, Assistant Director, (202) 401-8623 Christopher C. Crissman, Assignment Manager
Seattle Regional Office	Charles M. Novak, Regional Assignment Manager Thomas C. Perry, Evaluator-in-Charge

Related GAO Reports

Defaulted Student Loans: Analysis of Defaulted Borrowers at Schools Accredited by Seven Agencies (GAO/HRD-90-178FS, Sept. 12, 1990).

Supplemental Student Loans: Legislative Changes Have Sharply Reduced Loan Volume (GAO/HRD-90-149FS, Aug. 3, 1990)

Financial Problems in the Stafford Student Loan Program (GAO/T-HRD-90-52, July 27, 1990)

GAO Views on the Stafford Student Loan Program (GAO/T-HRD-90-13, Feb. 20, 1990).

Supplemental Student Loans: Who Borrows and Who Defaults (GAO/HRD-90-33FS, Oct. 17, 1989).

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO/HRD-89-63BR, July 5, 1989).

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, June 14, 1988).

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988).

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO/HRD-87-76, Sept. 30, 1987).

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate (GAO/HRD-87-48, Aug. 20, 1987).

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures (GAO/HRD-86-114BR, July 17, 1986).

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